

Message Text

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ACTION SS-25

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC IMMEDIATE 3921

C O N F I D E N T I A L BRASILIA 1308

STADIS/////////////////////////////////
EXDIS

FOR ASSISTANT SECRETARY ROGERS FROM AMBASSADOR

E.O. 11652: GDS

TAGS: EAGR, ETRD, BR

SUBJECT: SECRETARY'S VISIT TO BRAZIL - STR ADVISORY GROUP MEETING
ON SOYBEAN SUBSIDIES

REF: (A) STATE 32862; (B) BRASILIA 1186

1. I AM CONCERNED TO LEARN THAT STR'S AGRICULTURAL POLICY
ADVISORY COMMITTEE, SUB-COMMITTEE ON OILS AND OIL PROCES-
SING, IS SCHEDULED TO CONSIDER BRAZILIAN PRODUCTION AND
EXPORT SUBSIDIES ON SOYBEANS ON THE DAY OF THE SECRETARY'S
ARRIVAL IN BRASILIA, AND THAT USDA IS PLANNING TO PRINT
ITS REPORT ON THESE SUBSIDY PRACTICES THE FOLLOWING WEEK
BARELY AFTER THE SECRETARY'S DEPARTURE. ALTHOUGH
I UNDERSTAND THE MEETING WILL BE CLOSED, THE COMMITTEE
INCLUDES REPRESENTATIVES FROM PRIVATE INDUSTRY, AND THEY PRE-
SUMABLY ARE BEING TOLD ABOUT THE AGENDA IN ADVANCE. I
ASSUME THAT THEY ARE FREE TO DISCUSS THE MEETING, OR THE
USDA PAPER, WITH THE PRESS (AND THEIR FEELINGS ABOUT BRAZILIAN
SUBSIDY PRACTICES) IF THEY CARE TO DO SO. ANY NEWS ABOUT
THE MEETING ITSELF AND THE USDA PAPER TO BE RELEASED
THE FOLLOWING WEEK WILL ALMOST CERTAINLY BE PICKED
UP AT ONCE AND RECEIVE EXTENSIVE TREATMENT AND COM-
MENTARY HERE IN THE PRESS. A WAVE OF PRESS REPORTS AT
THIS TIME THAT THE USG IS CONSIDERING INVOCATION OF THE
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TRADE ACT TO COUNTER UNFAIR COMPETITION IN THIRD

COUNTRY MARKETS FROM BRAZILIAN SOYBEANS WOULD OBVIOUSLY PREJUDICE THE PURPOSES OF THE VISIT AND WOULD CONFIRM TO BRAZILIANS THAT BRAZIL'S TRADE RELATIONS WITH THE US ARE HEADED TOWARD INCREASING AND DESTRUCTIVE CONFLICT.

2. AS THE EMBASSY HAS REPORTED IN A SERIES OF MESSAGES, NOTABLY REFTEL B, THE CLIMATE OF OPINION IN BRAZIL IS ONE OF GROWING CONCERN OVER THE MASSIVE BILATERAL TRADE DEFICIT WITH THE US, AND OF FEAR (AND EVEN PARANOIA) OVER US ACTIONS IN THE TRADE AREA. THIS REACTION IS NOT LIMITED TO OFFICIALS CONCERNED WITH TRADE MATTERS BUT EXTENDS TO THE HIGHEST LEVELS OF THE GOVERNMENT AND EVOKES A CONTINUOUS FLOW OF PUBLIC COMMENTARY. IN THIS CONTEXT, PARTICULAR SENSITIVITY ATTACHES TO SOYBEANS, BRAZIL'S MOST DYNAMIC EXPORT PRODUCT, WHICH HAS NOW SURPASSED COFFEE AND SUGAR IN IMPORTANCE. SOYBEAN PRODUCTION, AS YOU KNOW, HAS REVOLUTIONIZED THE AGRICULTURE OF SOUTHERN BRAZIL IN THE PASTS FIVE YEARS, AND A GOOD DEAL OF BRAZIL'S EXPECTATION FOR EXPORT GROWTH (AND THUS THE RESUMPTION OF RAPID ECONOMIC EXPANSION) IS BASED ON THIS PRODUCT.

3. THE EMBASSY FULLY UNDERSTANDS THAT BRAZIL'S TRADE PROBLEMS WITH THE US ARE, IN GOOD MEASURE, SELF-INFLICTED BY THE RELIANCE ON EXPORT SUBSIDIES AND PRODUCTION INCENTIVES IN LIEU OF CORRECTION OF WHAT SEEMS TO BE A SUBSTANTIALLY OVERVALUED EXCHANGE RATE (PARTLY OUT OF A POSSIBLY MISTAKEN FEAR THAT INTERNATIONAL INVESTOR CONFIDENCE WOULD BE SHAKEN BY A SUBSTANTIAL ONE-STEP DEVALUATION.) IN FACT, WE HAVE NO DOUBT -- AND WE KNOW OF NO EXPERT OPINION TO THE CONTRARY -- THAT BRAZILIAN SOYBEANS WOULD BE FULLY COMPETITIVE ON THE WORLD MARKET WITHOUT SUBSIDIES UNDER A PROPER EXCHANGE RATE POLICY. WE SHOULD BE CLEAR, NEVERTHELESS, THAT REPORTS OR ANNOUNCEMENTS OF A US INVESTIGATION AIMED AT THE POSSIBLE INVOCATION OF THE THIRD COUNTRY PROVISIONS OF THE US TRADE ACT --

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THE FIRST TIME THIS WOULD HAVE BEEN DONE AGAINST A MAJOR COUNTRY -- WILL CAUSE A BITTER REACTION IN BRAZIL EVEN THOUGH THE PRESIDENT MIGHT ULTIMATELY DECIDE, AFTER AN INVESTIGATION, NOT TO INVOKE PENALTIES.

4. IN SUMMARY, WHILE WE DO NOT PRETEND TO KNOW ALL THE CIRCUMSTANCES SURROUNDING THE PROPOSED MEETING,

IT WOULD SEEM, BASED ON THE INFORMATION AVAILABLE TO US,
THAT A MEETING OF THE SUB-COMMITTEE ON THE DAY OF THE SECRETARY'S
ARRIVAL HERE RUNS A HIGH RISK, AND DOES SO QUITE NEEDLESSLY.
I STRONGLY RECOMMEND THAT THE PORTION OF THE MEETING
DEALING WITH BRAZILIAN SOYBEAN INCENTIVES BE POST-
PONED, AND POSTPONED QUICKLY. AS I HAVE SAID, NEWS OF A
DISCUSSION OF BRAZILIAN SUBSIDIES AT A USG-SPONSORED MEETING COULD
EASILY CIRCULATE IN THE PRESS IN ADVANCE OF THE
SECRETARY'S ARRIVAL. I CAN THINK OF FEW DEVELOP-
MENTS THA COULD DO SO MUCH SO QUICKLY TO PREJUDICE
SERIOUSLY THE CLIMATE FOR THE VISIT.
CRIMMINS

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